

EFA Sustainability Position Paper

Introduction

The European Fintech Association welcomes [recent initiatives](#) of the EU to encourage sustainability in financial services. We believe fintech, especially the cryptoasset sector, can play an important role in driving sustainable innovation. With the right approach, the EU can empower the cryptoasset industry to drive positive change, foster sustainable practices, and contribute significantly to the green transition.

Our Overarching View

We are supportive of sustainability measures for the cryptoasset sector and believe that the sector can play a positive and proactive role in driving the transition towards a more sustainable future. The first step towards achieving this is through reliable data reporting and collection, along with transparent disclosures for cryptoasset users. This will help incentivise the sector to make greater strides towards a transition to more sustainable options. We support current efforts to increase transparency, however we believe it is crucial to carefully consider the potential risks and challenges associated with the implementation of sustainability indicators. Furthermore, there is an opportunity to recognise the positive externalities that cryptoassets can bring, such as grid flexibility and resilience, as well as consistency of demand for new renewable energy sources. Without a thoughtful approach, regulation targeting sustainability could drive unintended consequences or limit the potential of positive innovation in the cryptoasset space.

General Considerations on MiCA Sustainability Indicators Transparency

Transparency is a fundamental principle that underpins sustainable and responsible practices within the crypto industry. We are supportive of increased transparency across the sector to ensure accountability and build trust with our customers and stakeholders. Transparent disclosure of sustainability data, methodologies, and metrics is crucial in enabling informed decision-making and fostering market integrity. By providing clear and comprehensive information, cryptoasset users can be empowered to make more informed choices and drive positive change in the industry.

Reliability of Data Sources

Accessing reliable and comprehensive sustainability data related to cryptoassets poses a significant challenge. While there are existing sources, such as the Cambridge Bitcoin Electricity Consumption Index, the data used in these sources may not always be fully reliable or reflective of the entire market. It is vital to establish a robust framework for data collection and verification to ensure the accuracy and credibility of sustainability indicators. Collaborating with independent auditing firms specialising in sustainability, as well as relevant experts on cryptoassets, can help ensure the accuracy and reliability of sustainability data.

Potential Bias against Consensus Mechanisms

Current sustainability indicators unduly disadvantage certain consensus mechanisms, particularly Proof of Stake (PoS), the consensus mechanism for ethereum, over Proof of Work (PoW), the consensus mechanism for bitcoin. It is crucial that regulation ensures that indicators do not favour one mechanism over the other without considering the unique characteristics and benefits they offer, or without thinking of their differential ripple effects, such as the benefits that PoW can bring to communities including employment opportunities, grid resilience, and stimulation of new renewable energy resources. Therefore, indicators should provide a balanced and objective view of sustainability considerations related to cryptoassets.

Consideration of Energy Source

The crypto industry, particularly those who work on the PoW mechanism, has often been singled out for its energy consumption; however, many other industries, including quantum computing, AI, and data centres, have significant energy requirements for their operations, and often use a greater percentage of fossil-fuel sources as part of their energy makeup. We encourage regulators to take a more holistic approach to sustainability indicators that acknowledges the broader context of emerging and digital technology energy requirements and prevents an undue focus on the crypto sector.

Ensuring balanced sustainability indicators in the cryptoasset sector is an important part of safeguarding the EU's technology neutral approach to regulation. When evaluating energy usage and emission metrics, it is crucial to consider the source of energy used in crypto-asset mining and transactions. We believe differentiating between renewable and non-renewable energy sources is essential to obtaining a comprehensive understanding of the environmental impact of cryptoassets. Importantly, we would flag that bitcoin/cryptoasset data centres that rely on renewable energy sources have no direct carbon emissions, as they operate alike to other computational data centres, and indeed often creates a demand for renewable energy in areas of the grid that have been typically underserved, strengthening the grid and providing further resilience. Furthermore, recognising the use of renewable energy can incentivise the adoption of eco-friendly practices within the crypto industry and help investors make more informed decisions.

By aligning the industry with sustainability goals, it will encourage participants to reduce their environmental impact, attract responsible investors, and stimulate the development of renewable energy technologies. In our view, regulatory efforts focusing on both accelerating and further incentivising renewable energy production across society, recognising the full picture of how cryptoassets can support this renewable drive, are the key to driving a transition from carbon-based energy sources towards a more sustainable future.

Access to Sustainability Data Related to Cryptoassets

Crypto Asset Service Providers (CASPs) face significant challenges in accessing reliable sustainability data. We believe that facilitating access to relevant data sources and establishing clear reporting guidelines can significantly contribute to addressing this issue. The EU Taxonomy for Sustainable Activities can serve as a valuable reference point in this effort. By incorporating the principles and criteria outlined in the Taxonomy, the cryptoasset sector can develop its own sustainability indicators that align with established standards. This approach ensures that sustainability data related to cryptoassets is collected, reported, and compared in a consistent and meaningful manner. Collaboration among industry participants, regulatory bodies, and academia can further support the development of standardised sustainability reporting frameworks for cryptoassets.

Investor Understanding and Relevant Comparison Points

Establishing relevant comparison points, such as industry benchmarks or performance standards, can play a crucial role in assisting investors to evaluate the sustainability performance of different CASPs. By drawing from established frameworks like the Sustainability Accounting Standards Board (SASB), guidance can be obtained on defining key performance indicators and reporting metrics. Furthermore, the principles of the Sustainable Finance Disclosure Regulation (SFDR) could be applied to determine the environmental, social, and governance (ESG) factors of various cryptoassets. This will enhance transparency and enable investors to make informed decisions based on reliable and standardised information.

About us:

*The European FinTech Association (EFA) is a not-for-profit organization representing leading FinTech companies of all sizes from across the EU. It brings together a diverse group of 40+ FinTech providers ranging from payments, to lending, banking, robo-advice, investment as well as software-as-a-service for the finance sector, with a clear focus on enabling a single market for digital financial services. For more information, visit www.eufintechs.com or follow **@EFAssociation** on Twitter.*